

May 31, 2007

Congressional Committees

Subject: *Improper Payments Information Act of 2002: Department of Defense Travel Expenditure Reporting*

In November 2002, the Congress passed the Improper Payments Information Act of 2002<sup>1</sup> (IPIA). The major objective of the legislation was to enhance the accuracy and integrity of federal payments. This legislation, in conjunction with implementing guidance<sup>2</sup> from the Office of Management and Budget (OMB), requires executive branch agency heads to review their programs and activities annually, identify those that may be susceptible to significant improper payments, estimate amounts improperly paid, and report on the amounts of improper payments and actions to reduce them. Since passage of IPIA, the Department of Defense (DOD) has continued to expand its annual disclosures in its performance and accountability reports (PAR) and currently discloses some detail of improper payment estimates for six programs or activities, including civilian pay, commercial pay, travel pay, military retirement, military health benefits, and military pay. DOD has reported improper payment information since 2003. The Congress mandated that we consider one facet of this reporting related to DOD—travel pay. The DOD Office of the Inspector General (OIG) first reported on whether the department complied with IPIA in fiscal year 2006 and identified several significant flaws in DOD's efforts to comply with IPIA.

Over the past several years, GAO has issued numerous reports that highlighted problems with DOD travel practices that resulted in wasteful spending of millions of dollars, including weak controls over first class travel, unused airline tickets, and the accuracy of travelers' claims.<sup>3</sup> Conference Report 109-676<sup>4</sup> accompanying the Department of Defense Appropriations Act, 2007<sup>5</sup> included a requirement for GAO to assess the reasons why DOD is not fully in compliance with IPIA related to travel expenditures and make any needed recommendations for corrective action. In response, this initial report provides an overview of DOD's IPIA reporting for fiscal years 2003 through 2006 and a discussion of the reasons reported by the DOD OIG that DOD was not in compliance with IPIA for fiscal year 2006. To further respond to

<sup>1</sup> Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

<sup>2</sup> Appendix C to OMB Circular No. A-123, *Requirements for Effective Measurement and Remediation of Improper Payments* (Aug. 10, 2006).

<sup>3</sup> See the Related GAO Products section at the end of this correspondence.

<sup>4</sup> H.R. Conf. Rep. No. 109-676, at 94 (Sept. 25, 2006).

<sup>5</sup> Pub. L. No. 109-289, 120 Stat. 1257 (Sept. 29, 2006).

<b>Report Documentation Page</b>			<i>Form Approved OMB No. 0704-0188</i>		
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this mandate, we plan to issue a separate report later this year that will include the results of a more comprehensive review of (1) the scope and methodology DOD used in its IPIA travel-related improper payments assessment and (2) DOD's internal control over travel-related IPIA reporting disclosures. Our follow-on report will also include recommendations for any needed corrective actions.

To complete this work, we reviewed DOD's PAR for fiscal years 2003, 2004, 2005, and 2006. We also reviewed prior GAO reports, applicable federal laws, prior DOD OIG reports, and OMB implementing guidance found in OMB Circular No. A-123, Appendix C.<sup>6</sup> We did not independently validate the improper payment data reported by DOD. However, we are providing this agency-reported data as descriptive information that will inform interested parties about DOD improper payments and other improper payment-related information. We believe the data to be sufficiently reliable for this purpose. We also did not independently assess whether DOD was in compliance with IPIA related to travel expenditures. We performed our work from November 2006 through April 2007 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Secretary of Defense or his designee. Written comments from DOD's Acting Deputy Chief Financial Officer are reprinted in enclosure I.

## **Results in Brief**

In fiscal year 2003, DOD began improper payment reporting in its annual PAR. As required under OMB Circular No. A-11,<sup>7</sup> it reported improper payments for military health benefits and military retirement. In fiscal year 2004, DOD reported that its improper payment survey<sup>8</sup> did not identify any programs or activities that were susceptible to risk of significant improper payments for purposes of IPIA. As in the prior year, DOD provided additional information for military retirement and military health benefits. In fiscal year 2005, DOD reported that none of its programs or activities met OMB's criteria for risk of significant improper payments under IPIA. Its survey, however, did find military pay susceptible to significant risk of improper payments. DOD's fiscal year 2005 reporting included information on statistical sampling and corrective action plans for its military retirement, military health benefits, and military pay programs.

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<sup>6</sup> Appendix C to OMB Circular A-123 consolidates three memorandums previously issued by OMB. These memorandums are: M-03-07, "Programs to Identify and Recover Erroneous Payments to Contractors" (Jan. 16, 2003); M-03-12, "Allowability of Contingency Fee Contracts for Recovery Audits" (May 8, 2003); and M-03-13, "Improper Payments Information Act of 2002 (Public Law 107-300)" (May 21, 2003).

<sup>7</sup> Prior to the executive branchwide IPIA reporting requirements, beginning with fiscal year 2004, former section 57 of OMB Circular No. A-11 required certain agencies to submit similar information, including estimated improper payment target rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from targets and goals established. In addition, these agencies were to provide a description and assessment of the current methods for measuring the rate of improper payments and the quality of data resulting from these methods.

<sup>8</sup> DOD conducts an annual survey of all programs and activities that may be susceptible to improper payments. The survey requires identification of underpayments and overpayments and a description of the methodology used to estimate improper payments.

In its most recent PAR for fiscal year 2006, DOD continued to expand its annual reporting, including information in varying levels of detail concerning improper payment estimates for civilian pay, commercial pay, travel pay, military retirement, military health benefits, and military pay. In total, DOD identified \$875.5 million in improper payments. Specifically, for travel pay for fiscal year 2006, DOD estimated about \$8 million in improper payments. For fiscal year 2006, the DOD OIG reported that the department did not fully comply with the requirements of IPIA and implementing OMB guidance. The DOD OIG cited, for example, an inadequate control process at the Defense Finance and Accounting Service as well as control weaknesses identified in GAO's prior assessments demonstrating that programs related to military pay, travel, property, contract payments, and automated systems may be at risk of making significant improper payments. The DOD OIG also reported on steps the department was taking to improve IPIA compliance, including the establishment of a Project Officer for Improper Payments and Recovery Auditing.

## Background

IPIA was enacted in November 2002 with the major objective of enhancing the accuracy and integrity of federal payments. IPIA requires executive branch agency heads to review their programs and activities annually and identify those that may be susceptible to significant improper payments. OMB provided implementing guidance for reporting under IPIA in Appendix C of OMB Circular No. A-123. The OMB guidance defines significant improper payments<sup>9</sup> as those in any particular program exceeding both 2.5 percent of program payments and \$10 million annually.<sup>10</sup> In addition, the guidance provides that agency programs that were included in former section 57 of OMB Circular No. A-11 must estimate improper payments even if the estimate does not exceed \$10 million and 2.5 percent of program payments.

In its guidance, OMB may also determine, on a case-by-case basis, whether certain programs should be reported even if those programs do not meet established thresholds. For all programs and activities susceptible to significant improper payments, agencies are to determine an annual estimated amount of improper payments made in those programs and activities. If the estimate of improper payments exceeds \$10 million, the agency must implement a plan to reduce the amount of such erroneous payments. Agencies that have identified programs or activities that may be susceptible to significant improper payments are also required to include the amount of estimated improper payments in their annual PAR, regardless of whether they meet the \$10 million threshold.

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<sup>9</sup> "Improper payment" and "erroneous payment" have the same meaning under Appendix C of OMB Circular No. A-123.

<sup>10</sup> IPIA does not include a similar threshold for defining significant improper payments.

## DOD IPIA Reporting for Fiscal Years 2003 through 2006

DOD has continued to expand its annual reporting on improper payments in its PAR. Its most recent report covering fiscal year 2006 included varying levels of detail concerning improper payment estimates for civilian pay, commercial pay, travel pay, military retirement, military health benefits, and military pay. The following provides an overview of DOD's reporting for fiscal years 2003 through 2006, with special emphasis on fiscal year 2006.

**Fiscal Year 2003.** In fiscal year 2003, DOD began reporting information as required under IPIA and OMB Circular No. A-11 in its annual PAR.<sup>11</sup> DOD reported on improper payments for military health benefits and military retirement. DOD also reported it "is reviewing all programs and activities and identifying those which are susceptible to significant improper payments." The department went on to describe its planned actions, including estimating the amount of improper payments and establishing goals to reduce the amounts of these payments. DOD also provided further detail on the projected improper payments and approximate error rate for military health benefits and military retirement.

**Fiscal Year 2004.** In its fiscal year 2004 PAR,<sup>12</sup> DOD reported that its improper payments survey did not identify any programs or activities where erroneous payments exceeded the established thresholds, nor were any found to be susceptible to significant risk. Further, DOD described the risk assessments performed on nine programs/activities that the department identified as being susceptible to improper payments. As a result of this assessment, DOD determined that none of the programs/activities were susceptible to high risk. Further, for two programs—military retirement and military health benefits—DOD described the statistical sampling process, planned corrective actions, reduction outlook, existence of information systems, and other infrastructure needed to reduce improper payments, as well as the statutory or regulatory barriers that might limit corrective action.

**Fiscal Year 2005.** In its fiscal year 2005 PAR,<sup>13</sup> DOD reported that its survey did not identify any programs or activities where payments met OMB's criteria for reporting as "significant" improper payments. DOD reported that its survey, however, did find military pay susceptible to significant risk of improper payments. DOD reported information on statistical sampling and corrective action plans related to its military retirement, military health benefits, and military pay programs. DOD also provided information on information systems, accountability for improper payments, and recovery auditing at the department.

**Fiscal Year 2006.** In its fiscal year 2006 PAR,<sup>14</sup> DOD reported that its current IPIA review did not identify any programs or activities at risk of "significant erroneous

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<sup>11</sup> DOD, *Performance and Accountability Report: Fiscal Year 2003* (Dec. 23, 2003).

<sup>12</sup> DOD, *Performance and Accountability Report: Fiscal Year 2004* (Nov. 15, 2004).

<sup>13</sup> DOD, *Performance and Accountability Report: Fiscal Year 2005* (Nov. 15, 2005).

<sup>14</sup> DOD, *Performance and Accountability Report: Fiscal Year 2006* (Nov. 15, 2006).

payments" in accordance with OMB criteria. However, the department also reported that civilian, commercial, and travel pay potentially were susceptible to improper payments in excess of \$10 million and reported estimated improper payments information for these programs. Further, the department again reported on its sampling and corrective actions concerning its military retirement, military health benefits, and military pay programs. Table 1 shows the information DOD reported on estimated improper payments for six programs in its fiscal year 2006 PAR.

Table 1: DOD's Reported Improper Payment Estimates for Fiscal Year 2006

<b>Program</b>	<b>Estimated improper payments (in millions)</b>	<b>Improper payments as a percentage of total program payments</b>
Commercial Pay	\$550.0	0.2%
Military Health Benefits	140.0	2.0
Military Pay	65.9	0.1
Civilian Pay	62.8	0.1
Military Retirement	48.8	0.1
Travel Pay	8.0	1.0
<b>Total</b>	<b>\$875.5</b>	

Source: DOD fiscal year 2006 PAR.

Further, DOD described the risk assessment process for each of the programs or activities that addressed the strength of the internal controls in place to prevent improper payments and reported on the results in its disclosure. DOD also described the statistical sampling and corrective action plans for these six programs or activities. Additionally, DOD summarized the improper payment reduction outlook for the military retirement, military health benefits, and military pay programs. Finally, DOD described its improper payments auditing, accountability information, information system usage, and statutory and regulatory barriers limiting the department's corrective actions.

With regard to improper payments reporting related to its travel program in DOD's fiscal year 2006 PAR, the department described the process in place to conduct monthly random postpayment reviews of travel records settled through the Defense Travel System (DTS) and Integrated Automated Travel System (IATS). DOD reported that these random reviews were designed to produce annual estimates of improper payments, with a probability of 95 percent and sample precision of plus or minus 2.5 percent, at the component level (e.g., Army, Navy, Air Force, and Marine Corps). Further, at the U.S. Army Corps of Engineers, DOD reported that all temporary duty travel (TDY) and permanent change of station vouchers greater than or equal to \$2,500 were subject to postaudit review, and a sample of every 366<sup>th</sup> TDY voucher less than \$2,500 was also reviewed.

DOD's fiscal year 2006 PAR also described the risk assessment DOD completed for several programs, including travel, to address the strength of internal controls in place to prevent improper payments, system weaknesses identified internally or by outside audit activities, and voluntary returns of overpayments. In Section 4 of its

fiscal year 2006 PAR, DOD described its corrective action plans regarding improper payments, including specific information on travel. In this section, the department only reported information on travel processed through DTS, although DOD uses other systems, such as IATS, to process travel in addition to DTS. In its PAR, DOD reported that in fiscal year 2006, over 783,000 trip records with a total settlement dollar value of \$823.6 million were processed through DTS. However, based on our ongoing work, this amounted to only 11 percent of the \$7.483 billion of DOD travel obligations reported for fiscal year 2006 in the 2008 Budget of the U.S. Government.<sup>15</sup> DOD reported that as of September 30, 2006, the department had randomly selected and reviewed 30,100 settled trip records related to DTS transactions, with a value exceeding \$32.6 million. Based on these reviews, DOD projected that improper payments accounted for .968 percent of the tested sample and thus DOD projected that improper payments in the population of DTS settlements could approach \$7.97 million.

### **The DOD OIG Raised Concerns with DOD's IPIA Reporting for Fiscal Year 2006**

DOD's independent auditor, the DOD OIG, determined that the department's fiscal year 2006 reporting did not fully comply with the requirements of IPIA and implementing OMB guidance. The auditors reported that their conclusion was based, in part, on an inadequate control process at the Defense Finance and Accounting Service as well as control weaknesses identified in GAO's prior assessments demonstrating that programs related to military pay, travel, property, contract payments, and automated systems may be at risk of making significant improper payments.

The DOD OIG also reported that the department had taken steps to resolve some previously identified issues regarding the methodologies and processes used in reporting improper payments. Further, the OIG reported that DOD had recently established a Project Officer for Improper Payments and Recovery Auditing. The project officer's reported responsibilities include (1) reviewing DOD's statistical methodologies and processes to verify that DOD's reported information is accurate, complete, and meets or exceeds OMB minimum reporting requirements; and (2) establishing an Improper Payments and Recovery Auditing working group to help DOD modify improper payment methodologies and processes as needed.

### **Agency Comments and Our Evaluation**

We requested comments on a draft of this report from the Secretary of Defense or his designee. The Acting Deputy Chief Financial Officer of DOD provided written comments, which are reprinted in enclosure I. DOD's comments correctly noted that this report does not contain any audit conclusions or recommendations, but does provide a summary of the DOD OIG's conclusions contained in DOD's fiscal year 2006 PAR that the department did not fully comply with IPIA for fiscal year 2006. DOD commented that our report would achieve a more balanced reporting of the

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<sup>15</sup> *Fiscal Year 2008 Budget of the U.S. Government*, Object Class Analysis (Feb. 5, 2007).

department's compliance with IPIA if it included the positive comments made by the DOD OIG, also included in the fiscal year 2006 PAR, as well as an acknowledgement of DOD's ongoing efforts to continually improve oversight and reporting of improper payments. Inasmuch as the mandate to which this report responds specifically required GAO to assess the reasons why DOD is not fully in compliance with IPIA related to travel expenditures, our draft report necessarily focused on the noncompliance aspects of the DOD OIG's fiscal year 2006 reporting. Nonetheless, we have modified the report to include the positive steps DOD had taken, as reported by the DOD OIG. Further, while we agree that DOD is taking steps intended to improve IPIA reporting, including holding an IPIA conference and continuing to work with OMB, the scope of our initial review did not include assessing the effectiveness of such steps.

DOD's comments also included a status update on the department's efforts to reconcile the amount of its travel payments reported in the fiscal year 2006 PAR, which represents 11 percent of the \$7.483 billion of DOD travel obligations reported in object class 21 (travel and transportation of persons) in the fiscal year 2008 Budget of the U.S. Government. We appreciate DOD's ongoing efforts to reconcile the disparate amounts reported in its PAR and fiscal year 2008 budget for travel and will assess the results of these efforts as part of our ongoing work.

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We are sending copies of this report to other interested congressional committees. Copies will be made available to others upon request. In addition, this report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-9095 or at [williamsm1@gao.gov](mailto:williamsm1@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report include Dianne Guensberg, Assistant Director; Heather Dunahoo; and Bradley Klingsporn.



McCoy Williams  
Director, Financial Management and Assurance

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Enclosure I

Comments from the Department of Defense



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MAY 16 2007

COMPTROLLER

Mr. McCoy Williams  
Director  
Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Williams:

This is the Department of Defense (DoD) response to the GAO draft report 07-767R, "IMPROPER PAYMENTS INFORMATION ACT OF 2002: Department of Defense Travel Expenditure Reporting," dated April 26, 2007 (GAO Code 195105). The draft report is comprised of a brief overview of the Department of Defense (DoD) Improper Payments Implementation Act (IPIA) reporting in the Performance and Accountability Report (PAR) for fiscal years (FY) 2003 through 2006.

The draft GAO report contained no audit conclusions or made any recommendations to DoD. The draft report did, however, reiterate a portion of the DoD, Office of Inspector General (OIG) conclusions contained in the FY 2006 PAR that the Department did not fully comply with the requirements of IPIA and implementing Office of Management and Budget (OMB) guidance. Included as part of the OIG's conclusions, but not cited by GAO in the draft report, was the acknowledgment that DoD worked closely with them in addressing previously identified reporting issues, including recently establishing a Project Officer for Improper Payments and Recovery Auditing (IPRA) reporting. In addition, the OIG noted that the DoD Project Officer was establishing an ongoing IPRA working group, comprised of representatives from the numerous Departmental IPIA reporting elements, to further improve compliance of DoD's IPIA reporting. We request your final report include a discussion of the additional DoD OIG comments in the FY 2006 PAR and the Department's ongoing actions to improve oversight and reporting of improper payments.

We also note that as part of the Department's ongoing actions to improve the IPIA reporting, we are holding an IPIA conference on May 16 and 17, where subject matter experts from OMB and DoD, OIG will provide training and knowledge sharing to attendees throughout the Department's IPIA reporting community. Additionally, the Department is working closely with OMB in implementing plans, agreed upon with OMB as part of the President's Management Agenda, towards eliminating improper payments. For the past year, OMB has scored the Department's progress as "green" to represent the Department's continued success and positive steps taken towards eliminating improper payments.

We are actively researching the GAO's comment that the amount of travel payments reported in the FY 2006 PAR amount to only 11 percent of the \$7.483 billion of DoD travel obligations reported in Object Class 21, "Travel and transportation of persons," in the "Fiscal Year 2008 Budget of the U.S. Government." The \$7.483 billion includes obligations for types of travel beyond the travel payments reported in the FY 2006 PAR, primarily comprised of employee authorized travel costs. The OMB Circular A-11, Section 83, Object Class 21 includes not only travel and transportation obligations for Government employees and other persons while in an authorized travel status, but also includes "Contracts to transport people from place to place, by land, air, or water," such as commercial transportation charges; rental or lease of passenger cars; charter of trains, buses, vessels, or airplanes; ambulance service or hearse service; and expenses incident to the operation of rented or chartered conveyances." We are reviewing Department vendor and commercial pay databases to identify the amount of payments for contracts covering personnel transportation that may further bridge the difference between the obligations reported under Object Class 21 in the budget report, and the amount of employee travel payments reported in the FY 2006 PAR. Once this reconciliation is complete, we will advise you of our results.

In summary, we believe the GAO would achieve a more balanced reporting of the Department's compliance with IPIA if the report included the positive comments made by the DoD, OIG in the FY 2006 PAR, as well as the Department's ongoing efforts to continually improve oversight and reporting of improper payments. We appreciate the opportunity to provide comments to your draft report. My point of contact is Mr. Wayne Goff, who can be contacted by telephone at 703-697-0831 or e-mail at [wayne.goff@osd.mil](mailto:wayne.goff@osd.mil).

Sincerely,



Robert P. McNamara  
Acting Deputy Chief Financial Officer

## **Related GAO Products**

*DOD Business Transformation: Defense Travel System Continues to Face Implementation Challenges.* GAO-06-18. Washington, D.C.: January 18, 2006.

*Army National Guard: Inefficient, Error-Prone Process Results in Travel Reimbursement Problems for Mobilized Soldiers.* GAO-05-400T. Washington, D.C.: March 16, 2005.

*Army National Guard: Inefficient, Error-Prone Process Results in Travel Reimbursement Problems for Mobilized Soldiers.* GAO-05-79. Washington, D.C.: January 31, 2005.

*DOD Travel Cards: Control Weaknesses Led to Millions of Dollars of Improper Payments.* GAO-04-576. Washington, D.C.: June 9, 2004.

*DOD Travel Cards: Control Weaknesses Led to Millions in Fraud, Waste, and Improper Payments.* GAO-04-825T. Washington, D.C.: June 9, 2004.

*DOD Travel Cards: Control Weaknesses Led to Millions of Dollars Wasted on Unused Airline Tickets.* GAO-04-398. Washington, D.C.: March 31, 2004.

*Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel.* GAO-04-229T. Washington, D.C.: November 6, 2003.

*Travel Cards: Internal Control Weaknesses at DOD Led to Improper Use of First and Business Class Travel.* GAO-04-88. Washington, D.C.: October 24, 2003.

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